

U. S. S E N A T E



Republican Policy Committee

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September 17, 1996

Innocent Until Proven Guilty — Except When You're Dealing With the IRS

What's Wrong With Our Tax System

Taxpayers deserve better: they deserve to be treated as good citizens who are trying to comply with the law. Instead, an agency of the federal government — the Internal Revenue Service — too often treats Americans as criminals. While the vast majority of the employees of the IRS are no doubt dedicated and hard-working, something must change when decent taxpayers are being frightened and harassed on top of having to bear the largest tax-and-regulatory burden in history. Five U.S. Senators recently spoke on the Senate floor on the need for reform of our nation's tax system. Points they made include:

- A recent General Accounting Office audit of the IRS concluded that the agency cannot properly keep track of the \$1.4 trillion it collects each year. And more, this agency — endowed with enormous power to scrutinize the personal finances of every American household — has serious financial management problems which “undermined” the ability of the GAO auditors to “attest to the reliability of IRS financial statements for the past four fiscal years....” Imagine a small business up for an audit that could not, for example, verify its records, could not determine its income, or account for its expenses.
- The IRS Commissioner recently charged that taxpayers only pay about 87 percent of what they owe, defending the agency's often-overzealous collection methods by stating that noncompliance deprives our government of more than \$90 billion a year. How can the IRS be so sure of this when their own financial management is in such disarray? This agency operates with the mind set that most of us are out to cheat the government.
- In his economic reform plan, Senator Dole pledges to “free the American people from tax tyranny.” The IRS is five times bigger than the FBI and employs more people to collect taxes than we have serving in the Armed Forces. The Tax Code itself has grown to 1.4 million words, and the regulations the IRS has written to comply with that code amount to 5.7 million words. It would take a speed reader three years to read all that. When innocent, law-abiding taxpayers are forced to appeal in droves to their elected representatives to act as intermediaries, something needs to be done.

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[Senators' remarks may be found in the September 13, 1996 *Congressional Record* beginning on the following pages: Sen. Coverdell (R-GA): S-10546; Sen. Thomas (R-WY): S-10546; Sen. Bennett (R-UT): S-10548; Sen. Grams (R-MN): S-10549; and Sen. Thurmond (R-SC): S-10555.]

TAX REFORM AND TAX RELIEF

Mr. COVERDELL. Madam President, it is our intention during the hour under our control to continue the discussion of the importance of tax reform and tax relief for the American people at this time in which they are bearing the highest tax burden in American history. We have been joined by my distinguished colleague from Wyoming. I yield up to 10 minutes to the Senator for the purpose of expounding on this subject.

The PRESIDING OFFICER. The Senator from Wyoming.

Mr. THOMAS. I thank the Senator from Georgia for setting up some time to talk about the issue that most of us talk about all the time, and that is taxes. It is an issue we should talk about. It is an issue that cuts very deeply into our lives. We spend an average of nearly 40 percent of our income on taxes at various levels. So it is something we ought to talk about.

I think part of the focus today—I talked about this earlier, as a matter of fact—is on the philosophical idea of taxation, whether you have less or more, whether you have smaller government or larger government, and that is a choice. But, more specifically, I think this hour was to look a little bit at simplification, to look a little bit at the difficulty of collection, to look a little bit at some of the debates and discussions that go on with respect to the IRS. Many people are very disillusioned with the IRS, and I do not defend that agency particularly, but I do tell you basically you have to have a simplification of taxation if you are going to have simplification of collection. Probably there is nobody here who would disagree with that. But it never seems to happen.

Every year we talk about simplification. Every year we talk about making it easier. But we keep going on. The current tax system is a mess. It is extremely difficult. It is a result of probably 80 years of debate and discussion and, frankly, abuse, by lawmakers, by lobbyists, by special interests—perhaps unintentionally. But, in any event, I think no one would argue with the fact that we have, now, a tax system that is extremely difficult, extremely cumbersome, extremely ineffective and unfair. It is certainly too complex and much too costly. And of course the tax system itself punishes the idea of investment, punishes the idea of incentive, punishes the idea of saving. And all those things go together.

I have already mentioned the figures. We pay nearly 40 percent. That is an astounding figure, really, in terms of a working family who—most families are working families—has to work until late May to pay their taxes.

Mr. COVERDELL. Madam President, I wonder if the Senator will yield for a question?

Mr. THOMAS. Certainly.

Mr. COVERDELL. In this debate about the working family there are two figures that are constantly quoted. One

is 40 percent. I typically use 50. I wonder if the Senator would agree, when you add on the regulatory costs and that family's share of higher interest rates because of the national debt, you end up with another \$9,000 coming out of the checking account of the average family. It really takes it to over 50 percent, dealing with the cost of government.

Mr. THOMAS. I am sure that is correct. And it is an even more astounding figure than we have.

It is set up so we do not think about it a lot. I do not object to the idea of withholding. It is probably the only way to do it. But withholding sort of slips in there and you hear people talking all the time, "Well, gee, I got money back." It is my money. It is my money. Back from where?

Anyway, it is a very high figure. But it seems to me—and I wanted to focus on this, and I am going to speak for just a few minutes about this—it is too complicated, much too complicated, and too difficult to figure. Again, an estimate is 4.5 billion hours a year are spent in the preparation of tax returns. That is an astounding number as well.

Each of us knows how difficult it is to figure our taxes. They are too hard to enforce. The more complicated, the more difficult it is in the tax system, obviously it is more difficult to enforce. And enforcement is important. You have to ensure that, when you have a tax system, that everyone is treated fairly in that tax system, that everybody contributes what under the law they are supposed to contribute. So the tax system makes it most difficult.

Probably there are too many loopholes. They are often called loopholes. The fact is, over time, the Tax Code has been used to affect behavior. When we wanted someone to do something we changed the taxes and made it an incentive to do it. So we have all these series of things which have very little to do, frankly, with paying taxes. They actually have very little to do with the fairness of taxation, but have more to do, in fact, with seeking to modify behavior. Maybe that is a legitimate function of taxes. But I can tell you, it makes it much, much more difficult. It probably makes it much, much more unfair, in terms of the total collection.

I think we had, this year, as an example, a real demonstration of how frustrated people are when there was the kind of discussion and acceptance, frankly, of the so-called flat tax. Obviously the most attractive thing about a flat tax was the ease with which it could be collected. There is argument about the fairness of it. Those who have studied it feel it is even more fair. I do not argue with that.

Politically, it probably is not going to happen. There are some things like homeowners' interest and those kinds of things that are going to be very difficult, politically, to change. The argument is, of course, if I am an investor in your company and you pay me a dividend, that dividend has been paid after

tax, so I should not have to pay it again on the dividend. But when you see someone with a large income from dividends, politically that is probably not going to happen.

Nevertheless, the point is, it was very attractive for Americans to talk about a simpler, easier, more fair tax system, whatever it is. I am no expert on that, but I think it must be possible to do that. It must be possible to find a way to come up with a system that makes it easier to enforce. So we get away from the idea of having an agency like the IRS, that has to do the things it has to do. I am not being an apologist for some of the behavior that IRS might use on people to do this. But, nevertheless, the fact remains that they have a terribly difficult job, to enforce this kind of a convoluted tax system.

So, Madam President, I think there are lots of things we could too. I have a hunch, if we eliminated a lot of the exemptions, the lower rate would offset some of the things that are now in there as exemptions. We would find it would work better. I think collections would be higher if it were simpler, and we would have fewer problems.

There are many reform and simplification ideas out there. Frankly, I would support a plan, obviously, that deals with fairness. You have to be fair as to whoever pays their fair share; simplicity ought to be an issue, we ought to be able to make it much more simple, particularly with some of the equipment that we have now. I think we ought to reduce the burden. We have to pay for the Government we have, but we can do with substantially less. We can do with shifting many of these activities closer to home, so voters would know, when they made a cost-benefit analysis. Expenditures at the Federal level are very difficult to measure.

At home, in the school district, when they say we are going to have a bond issue and we are going to build a science room and it is going to take \$400,000, then you say OK, is it worth it? Am I going to do it? You have a cost-benefit ratio. How do you do that in the Federal Government, tell me, in a \$1.5 trillion budget where even people here are not certain what is in the thing? So we can do that. And the result would be to rein in the role of the Internal Revenue Service and we can do that by simplifying, reducing, making easier a tax system.

Madam President, I hope that we do that.

I yield the floor.

The PRESIDING OFFICER. The Senator from Georgia.

Mr. COVERDELL. Madam President, I thank my colleague from Wyoming, once again, for the contributions he makes in general to this Nation, but I appreciate his being here this afternoon to talk about the issue of the Internal Revenue Service and its broader implications on taxes.

As you know, Madam President, one of the centerpieces of Senator Dole's

economic plan is to focus on the IRS and how it interacts with the American people.

I am going to read an article that recently appeared on June 7, 1996. It refers to a General Accounting Office report on the Internal Revenue Service, which I am going to quote from in just a moment.

This article says:

A congressional audit of the Internal Revenue Service asserted yesterday that the agency that scrutinizes taxpayers' finances cannot properly—

Cannot properly.

keep track of the \$1.4 trillion it collects each year.

Given the stories—and all of us are familiar with them, of the way taxpayers are treated from time to time by this agency—it is a bit ironic that the General Accounting Office would say that they cannot keep track of the money they collect.

It goes on to say:

"The agency that is so strict on the way Americans keep their books cannot itself pass a financial audit," complained Senator Ted Stevens (R-AK) chairman of the Governmental Affairs Committee. Stevens, reviewing the fiscal 1995 audit by the General Accounting Office, raised the possibility of Congress appointing an outside control board to run the IRS.

That is an interesting idea, somebody that they would have to be accountable to, like the citizens have to be accountable to them.

He says:

It would be a board similar to the one overseeing the District of Columbia Government. In the House of Representatives, Representative Jim Lightfoot (R-IA) chairman of the appropriations subcommittee controlling the IRS budget, said an outside board would be something worth considering.

And I certainly concur with that.

"Management has been a problem there," he said. The GAO audit said fundamental persistent problems remain uncorrected—

Madam President, uncorrected for the fourth year in a row. For the fourth year in a row, these problems remain uncorrected. I am sure the Presiding Officer, from time to time, has had to fill out her tax returns and remembers that the agency did not allow the Senator 4 years to work things out. They had to be done on a deadline date certain.

The IRS report said it cannot reconcile—

Let me just read from the report rather than this article. This is the General Accounting Office financial audit, dated July 1996, "Examination of IRS's Fiscal Year 1995 Financial Statements." It is voluminous, but it says:

The following five financial management problems, which have undermined our ability to attest to the reliability of IRS financial statements for the past 4 fiscal years, provide the basis for these conclusions.

1. The amounts of total revenue—

That's taxes.

\$1.4 trillion and tax refunds, \$122 billion, cannot be verified or reconciled to accounting records maintained for individual taxpayers in the aggregate.

2. The amounts reported for various types of taxes collected—Social Security, income,

excise taxes, for example—cannot be substantiated.

3. The reliability of reported estimates of \$113 billion for valid accounts receivable and \$46 billion for collectible accounts receivable cannot be determined.

4. A significant portion of IRS's reported \$3 billion in nonpayroll operating expenses cannot be verified.

5. The amounts IRS reported as appropriations available for expenditure for operations cannot be reconciled fully with Treasury's central accounting records showing these amounts, and hundreds of millions of dollars in differences have been identified.

Madam President, if this was the report that an individual taxpayer got—"cannot be reconciled," "cannot be verified," "cannot be determined," "cannot be identified"—that taxpayer would be in a world of hurt and trouble. It would be unthinkable that you could engage this agency and have them finding that you could not reconcile your records, you could not determine what your income was, you could not put anything together, you could not account for it. You would be in deep trouble.

This agency needs to reflect on that. There are over 100,000 employees, and we know they are very dedicated employees, but this is unconscionable that they would receive a report like this and demand the kind of adherence to specificity and to timing that they ask of the American citizens but do not subscribe to themselves.

This issue of the Internal Revenue Service has taken on new proportions of late, because Representative JENNIFER DUNN of Washington in a speech made a remark that basically said the agency ought to adhere to standards that it demands of people. And I just talked about that. The Government findings are that the agency can't manage its own affairs to the extent that they are demanding of the American people.

We have been in a discussion this afternoon about the Internal Revenue Service. I have alluded to the General Accounting Office this year has found grave fault with this agency and the manner in which it maintains its own financial records.

There are even suggestions in both Houses now for a control board to oversee the agency. I pointed out very recently this issue has been elevated because Congresswoman DUNN, JENNIFER DUNN, from Washington, had said, you know, the agency ought to be held to the same kind of standards that the American people are held to. And that irritated the agency. And the agency indicated, in a letter to Ms. DUNN, among other things, by Margaret Miller Richardson, who is the Commissioner of the Internal Revenue Service—she said she was dismayed and confused to hear this Congresswoman suggest that there was something less than perfect going on at the Internal Revenue Service. And she goes on to say, "Taxpayers now pay about 87 percent of what they owe. Noncompliance is a serious problem that deprives our

Government of more than \$90 billion in revenue annually."

I am sort of curious, how do they know? How does the Internal Revenue Service know what legitimate taxes are not being paid? The tone of this suggests, "These American citizens out here, we need to be watching over them, make darn sure they pay what they are supposed to pay!" It is kind of like all of our citizens are looking for a way to defraud the American Government, for Heaven's sake.

I will read this report and then I will turn to my colleague from Utah. This is a copyright 1994 News World Communications, Inc., the Washington Times, August 2, 1994. The headline of the article, "IRS Bullies." "Last week the House was debating discharge position 12 which would ensure that the taxpayer is innocent"—not guilty, as this might suggest—"is innocent until proven guilty."

We have two sets of laws in America: You are innocent in America until you are proven guilty, but that is not always the case if you are dealing with the IRS.

About the same time, "Inside the Beltway" disclosed for the first time Washington lawyer, Susan Allen's incredible encounter with John Richardson, the husband of Internal Revenue Service Commissioner Margaret Richardson, who wrote this letter to Congresswoman DUNN:

Mr. Richardson, the lawyer told us, had parked his black Volvo across an alley driveway leading from her Northwest home, preventing her from driving out of her garage. When Mr. Richardson was summoned from a nearby restaurant, she said he huffed, "Margaret Richardson" [that is the commissioner of Internal Revenue Service] "is my wife, and she is the IRS commissioner, and I hope you paid your taxes." The surprised lawyer couldn't believe her ears, so Mr. Richardson gladly huffed again: "My wife is the commissioner of IRS and I hope you paid your taxes."

We have an attitude issue here, Madam President. It is not just this agency. About 85 percent of the people that come through my office are concerned, in one way or another, about the treatment they receive from their Government. I grew up thinking the Government was supposed to be a partner, not a bully or a boss. I think these things deserve some serious attention.

We have been joined by my colleague from the good State of Utah. I yield up to 10 minutes to the Senator from Utah.

Mr. BENNETT. Madam President, I have two points to make with respect to the IRS.

Let me preface this by saying that the IRS has a large facility in my State, in Utah, in Ogden, and by and large the overwhelming majority of the people who work in that facility are honest, hard-working, dedicated Americans who are as anxious to do a good job as anybody in any other agency.

I learned when I was in the business world that when something is wrong, seriously wrong with an organization,

it is usually not with the people. It is usually with the system that they are operating and with the culture.

I wish to make two points about the IRS system and culture, with the understanding that I am not criticizing hard-working, dedicated individual civil servants who are doing the best they can in a difficult circumstance.

First, the system. Rather than discuss individual horror stories—I will get to that when I talk about culture—I want to go to formal examinations of the IRS that are before us as Members of Congress and call the attention of my fellow Senators and others to two reports. One is from the GAO, the General Accounting Office, that came out in August of this year. It says "Tax Systems Modernization." That is the standard headline, but look at the sub-headline that is right there on the front of the report. It says, "Cyberfile Project Was Poorly Planned And Managed."

Then on the heels of that, in September 1996, hot off the presses, if you will, the General Accounting Office "Internal Revenue Service"; the subhead, "Business Operations Need Continued Improvement."

These were both submitted to the Governmental Affairs Committee, the chairman of which, Senator STEVENS of Alaska, has shared them with me. Let me give a summary of what is in these reports. Again, I look at this as a businessman, and I must say, Madam President, I am appalled. The IRS has not passed an audit during the 5 years they have been audited. Their major failures are they cannot account for revenues from tax returns and refunds. They cannot account for goods received against payments made, and there are computer security weaknesses that have allowed IRS workers to view and alter returns. Think of the movies we have seen of the hacker getting into the system. Well, IRS employees can get into the system and not alter grades the way they do in the movies or set off nuclear wars, but at least alter the returns of some of their friends, if they want to.

The recent GAO audit found that interim computer security procedures have been improved, but these weaknesses still remain. The amounts of total revenue, \$1.4 trillion, and tax refunds, \$122 billion, cannot be verified or reconciled to accounting records maintained for individual taxpayers in the aggregate. In other words, we have a business here that for 5 years has been unable to close its books because they cannot bring them into balance. They cannot reconcile the numbers on this side with the numbers on that side. I find that astounding—5 years and they still cannot reconcile the amounts of total revenue and tax refunds to their accounting records maintained for individual taxpayers. I wonder how forgiving the IRS would be in an audit of a business that said for 5 years we have been unable to reconcile these amounts.

Next, the amounts reported for various types of taxes collected—for example, Social Security and income taxes and excise taxes—cannot be substantiated.

Next, the reliability of reported estimates of \$113 billion for valid accounts receivable and \$46 billion for collectible accounts receivable cannot be determined.

Next, a significant portion of IRS's reported \$3 billion in nonpayroll operating expenses cannot be verified. The amounts IRS reported as appropriations available for expenditure for operations cannot be reconciled with the Treasury's central accounting records showing these amounts. The differences are in the hundreds of millions of dollars. Again, how would the IRS react to a company that showed differences in accounts between one division and the other that were hundreds of millions of dollars in size, and was unable to reconcile them?

Now, the reason the IRS says it is so difficult for them to pass an audit on these issues is that they were never required to do so until the Chief Financial Officer Act was passed. Therefore, they say their financial management systems and procedures were never set up to be audited.

This is incredible. For 5 years, they have been unable to pass an audit. They cannot reconcile their accounts, either internally, or with the Treasury. Yet, they ask us to have a high degree of confidence in the way they handle our taxpayers' money. So that is my first point with respect to the structure.

Now, if I may, I will talk about the culture of the IRS. As my colleague from Georgia has done, I will use examples out of my own office as a Senator. Here is one.

A taxpayer pays the tax he figures he owes; he sends the tax in to the IRS. The payment sits there for a year and a half, and he hears nothing back. Then, for some reason, the entire amount he paid is sent back to him, with no explanation. The IRS simply sends it back after a year and a half—no explanation, no indication. Two days later, they send him a notice saying that he owes tax for that year at a lesser amount than the amount he had sent them and demands that it be paid immediately. And then, a few weeks later, a notice comes that interest and penalty are now due on the tax that he just paid. He pays the tax, they keep it for a year and a half, send it back to him, with no explanation, then send him a new tax bill. He pays that, and he is told he owes interest and penalty on the new tax bill because he hadn't paid his taxes on time a year and a half before. Well, he thinks, surely, when he explains this, somebody will straighten it out. He goes to the IRS and gets no assistance whatsoever. He was told he owed the interest and penalty, and if he did not pay it, the penalty would continue to accrue.

Finally, he came to my office. My constituent liaison person made inquiry with the local IRS people and was told there is no way, legally, to cancel the interest and penalty in this case. Well, fortunately, the members of my staff are as persistent as I would hope they would be. They did not accept that as an answer and, ultimately, the case was resolved. But what does it say about the Agency when it takes the muscle a U.S. Senator to get them to resolve something that is so absurd, as this was?

The second case, which is not an individual case but a series of cases that we see—and I would assume that my colleagues see—in our offices often as well. Homemakers, women in marriages that go along for a while, and then they don't work out. They always filed joint returns. The husband fills out the joint return, signs it, hands it to his wife, says, "Sign it here, I am sending off the tax return." They sign it without really understanding what is going on. And then the marriage breaks up, a divorce takes place. The woman has to find a job. She goes out and gets a job, only to discover that her wages are now being attached by the IRS for back taxes that her husband never paid. He did not tell her that he wasn't paying them. He, indeed, lied to her and told her they were being paid and they were all taken care of. She was being defrauded by her husband. But instead of coming after the husband, the IRS comes after her. Why? Because she is the one working. The husband disappeared. She is working and she has to put her life back together. Many times children are involved that she has to support. But instead of saying, yes, we recognize that in the situation you were in before, you, in fact, had no control over the family finances, they are now saying, no, because you signed that return, you are due for those taxes because we can't find your husband.

Even in those cases where the woman can prove she did not sign the return, the husband signed her name, forged it, the IRS says, no, your name was on there, there was a signature, and you are coming into the work force, trying to put your life back together, trying to take care of your kids, and you are now responsible for the taxes that your former husband refused to pay. The women in these circumstances feel intimidated, scared, frustrated and, above all, confused.

We had one who finally came to my office asking for assistance because the collection officer was abrasive, intimidating, and demanding. Once again, it was only after my congressional liaison person got involved that this woman got some degree of relief from this.

So those are the two points I leave you with, Madam President. First, the system, as indicated in these two reports, has very serious systematic problems—trillions of dollars, and they can't make their books balance, internally or with the Treasury books. Sec-

ond, the culture, where IRS agents find themselves intimidating and demanding, and where ordinary citizens are seeking some kind of redress and protection and ultimately come to Members of the U.S. Senate for help.

One final comment. I don't know how true this is of other Senators. I am one who has gone through an IRS audit. I found it a relatively painless kind of experience. I was fully prepared. The individual on the other side recognized that, and we went through things in a civil, proper fashion, and I commented on that to another friend, saying I had been through an IRS audit, and it's not all that bad. He looked at me and he said, "BOB, it is entirely the luck of the draw. It depends on which agent you get that day. You were lucky enough to get the intelligent, properly motivated, properly directed, dedicated civil servant. I got the other kind. I can tell you, it depends on which one is on duty when your number comes up."

It should not be that way, Madam President. We should have equal justice under the law, and everybody should be treated the same.

I yield the floor.

Mr. COVERDELL. Madam President, I thank the Senator from Utah for his very revealing comments. He was on target. I appreciate very much him joining us this afternoon. I am now going to yield up to 10 minutes to my colleague from Minnesota.

The PRESIDING OFFICER. The Senator from Minnesota.

Mr. GRAMS. Madam President, when 2,000 American job providers came to Washington last June to attend what was called the Third White House Conference on Small Business, they brought with them hundreds of ideas on how to make Government more responsive—to the taxpayers and to small business alike.

They condensed their suggestions into a list of 60 to send on to the White House. Even though their recommendations covered a tremendous range of concerns, one point generated near universal agreement from that conference, and that was that something must be done about the complex and costly Federal tax system.

Well, there's nothing simple about taxes anymore, as you have heard here today. As any taxpayer will tell you, the IRS today is five times bigger than the FBI, and it's twice as large as the CIA. To run such a massive operation takes the equivalent of more than 3 million full-time employees. We have more Americans collecting taxes than we have serving in the Armed Forces.

The IRS manages a library of 437 separate tax forms. The IRS mails out over 8 billion pages of tax instructions every year.

Now, our colleague in the House, the distinguished majority leader from Texas, points out that American workers and businesses spent 5.4 billion hours in 1990 just preparing their taxes. That is more time than it takes to build every car, truck, and van that is

manufactured in the United States every year. Just to administer a tax system so unwieldy costs our taxpayers almost \$14 billion a year.

Even though the IRS demands strict compliance from the American people, it has set far lower standards for itself, as our colleague from Utah points out. It has long permitted itself severe abuses within its own accounting practices—something they would not tolerate from businesses or individuals.

In a report issued last year, the General Accounting Office took the IRS to task for failing to keep its own books and records with the same accuracy that it demands of the taxpayers.

For the last 2 years, in fact, the GAO has not been able to express an opinion on the financial statements of the IRS, and that was due to serious accounting errors and internal control problems. More than 20 months later, the problems still remain.

In testimony before Congress in June, Gregory Holloway of the GAO reported:

We have made 59 recommendations to improve the IRS's financial management systems and reporting. IRS agreed with these recommendations and has worked to implement them and correct its financial management systems and information problems. However, many of the more significant recommendations have not yet been fully implemented.

There are other ways in which the management problems within the IRS are manifesting themselves. And far too many of my constituents are forced to deal with the fallout on a daily basis.

Madam President, every American has experienced the frustration of filling their Federal tax returns. Even though Congress has tripled funding for the IRS over the last 7 years to the tune of \$7.5 billion, the level of service provided to the taxpayers has not grown proportionally. In recent years, the IRS has invested billions of taxpayer dollars in its efforts to modernize its operations, including its information systems—but the GAO has dubbed the results "chaotic." As an ironic consequence, the IRS, the Nation's tax collector, is perhaps the least taxpayer-friendly agency in the entire Federal Government.

Meanwhile, the Federal tax system continues to grow more complicated and hard to understand. In the mid-1950's, the Federal Income Tax Code was comprised of 103 sections and 400,000 words.

Today, it has ballooned to 698 sections—a 578-percent increase—and nearly 1.4 million words.

Adding to the aggravation of the Nation's taxpayers, tax regulations have multiplied just as rapidly.

Between 1955 and 1994, the number of words in the regulations of the Internal Revenue Code increased more than 550 percent, from just over 1 million words to 5.7 million in the IRS Code.

Even if you are a trained speed reader who can read 1,000 words a minute, and you did not do anything else but

devote every hour of every business day to reading these regulations, it would take you almost 3 years to wade through them.

The rapid growth of the Federal Tax Code and its regulations has dramatically increased the complexity of our tax system, to the point where no one but a very few tax specialists can understand it. Even IRS agents are often confused by their own tax laws. The complexity of the Federal tax system means that tax assistance for ordinary American taxpayers is even more urgent now than ever before.

But this desperately needed assistance has not been adequately provided. For example, my State office receives complaints daily from constituents frustrated they cannot get through to a human being at the toll-free lines established by the IRS. The lines are constantly busy. In some cases, my constituents have tried for 3 or 4 days before they finally reached a real, live person.

In July, I received this letter from a taxpayer in St. Paul who was being threatened with a lawsuit by the IRS:

I am one of those middle-age, lower-middle-class citizens who have pulled myself from extreme tragedy to the point where I am trying to buy my house. I've never had the government or any agency help me.

And now my entire life is threatened because I can't talk to a human being about my taxes. Please help me. I have sent a copy of this to the IRS, the White House, Senator Wellstone, and no one seems to be able to help. I can't believe that I cannot find a human being in the IRS to talk to.

Another constituent of mine who tried repeatedly to reach someone at the hotline shared their frustration with the IRS operator when their call was finally answered. "Blame it on Congress. They cut our budget," said the operator. The IRS employee ended the call by advising my constituent to telephone me and demand more tax dollars for the IRS.

Let us go back over that again. He finally got through after days and was finally able to talk to an operator at the IRS. And the answer he got was "Blame it on Congress" because "they cut our budget." And before he got off the phone the operator, the IRS person, told them to call me in Washington and demand more money for the IRS.

I suggest, Madam President, that throwing more dollars at an agency that already cannot account for \$1.4 trillion tax dollars it takes in annually is hardly the solution.

The Federal Government enacts laws that we require the people to obey. But in the case of the IRS telephone hotline service, we have failed to provide sufficient assistance to enable average Americans to understand and comply with the laws.

And when innocent incompliance occurs due to the complexity of the tax system, we punish the taxpayers by imposing all sorts of penalties. This is simply not fair.

Let me give you two examples. A certain individual in Minnesota told me

about a problem he had. He paid about \$35,000 in taxes but didn't file his return until October. But he had filed all the necessary extensions that he needed to file to get the extension on his return. The IRS had already collected about \$35,000. But he was still short about \$4,000, which he paid plus interest. But even after paying all those taxes he still was find \$700 for being late.

Another individual that is self-employed told me that he pays his taxes every year quarterly estimating his taxes, and at one time he received more money in payments from his clients than he expected, and when he paid taxes on that, IRS came back and fined him \$500 because he had failed to report that correctly.

Madam President, I do not know if that is fair, or what is intended when we have taxpayers out there trying to meet the laws, obey the codes, and yet are fined by this agency.

Madam President, I am pleased the Senate took action this week to resolve this most frustrating situation by accepting my amendment to the Treasury-Postal appropriations legislation. The amendment will help correct the problem by making the IRS prioritize its toll-free telephone service and allocate the necessary resources to ensure that taxpayers receive adequate assistance and answers to their questions.

This will not solve most of the problems plaguing the IRS, of course, but it marks a start. I am happy to see additional solutions being proposed, and I am especially pleased that our former majority leader, Bob Dole, is speaking loudly about our need to forever end the IRS as we know it.

He has pledged to "free the American people from tax tyranny," and the ideas for IRS reform he has put forward in his economic blueprint have raised the level of this debate.

They deserve a close look by the taxpayers, as we seek to build an IRS that will be a tool for the taxpayers, not a weapon against them.

Thank you very much, Madam President.

Mr. COVERDELL. Madam President, when Senator Dole left the Senate, I looked down at this desk, and I said that I would "never forget or look at this desk without seeing him or thinking of him."

He is now engaged in a very long journey. As the Senator from Minnesota just alluded to, he put forward a very broad economic plan that deals with the IRS that we have just been discussing, along with other policies such as the 15-percent across-the-board tax break, and others.

Yesterday, my good colleague from Nebraska came to the floor—and, of course, he was the longest serving Governor of Nebraska, and he has been in the Senate 18 years—and I was taken aback by his comments about Senator Dole.

Just to quote here, he calls it:

The latest "Follow the Yellow Brick Road" path of wizardry blends \$550 billion in tax breaks, unspecified spending cuts, and rosy economic scenarios into one shameless political ploy. When the unsuspecting Dorothy of the world pull back in wonderment the curtain, they discover a huffing and puffing candidate, Bob Dole, as the wizard. This is the same wizard who for the first 72 years of his life forswore such economic nonsense. Bob Dole's transformation from a deficit hawk into a carrier pigeon for supply

Well, anyway, I just do not think those kinds of remarks are fitting in public discourse, and certainly here in the Hall of the greatest legislative Chamber in the history of the world I do not think they are fitting remarks. We can debate our differences about our views on tax relief and economic policy without resorting to this kind of language. I do not think it is fitting for the Senate, and I wanted to say so here rather than off in some klatch someplace.

The Senator from Nebraska went on to ridicule the economics of the 1980's which, I might point out, was the longest peacetime economic recovery in the history of the United States. He apologized to America for having supported the Reagan tax cuts, and he said it was worst vote he had ever cast and a mistake.

I find it hard to characterize beginning the longest peacetime recovery as a mistake; or ending double-digit inflation, which had been 13 percent, he now characterizes trying to correct that and correcting that as a mistake; getting interest rates down—people do not remember but they were as high as 22 percent, and this economic recovery, of course, reduced it dramatically, but he characterizes that as a mistake; or was creating 20 million new jobs in that glorious decade a mistake, as he characterizes it and regretted having ever voted to support it; or rebuilding our national defense and economy, winning the war over communism, ending the cold war, and he characterizes that as a mistake.

Madam President, right now I talk a lot about the American family. I do not think we can talk enough about them. In my State, after they pay their Federal taxes, State taxes, local taxes, their share of the increased interest on the national debt, their share of the costs of the burden of regulation in America which is now \$7,000 for an average family of four, they have less than half the money they earn in their checking account. They are left with only 47 percent of their wages—unbelievable. No wonder there is much anxiety and pressure and worry in middle-income families of America.

This administration which promised to lower that pressure—it was a very major political statement to the country—really did not get its bags unpacked before it imposed a \$491 billion tax increase—the highest in American history.

Madam President, \$491 billion, what does that mean to this family I was

just talking about? It means that they lost in the last 3 years somewhere between \$2,000 and \$2,600 per year less in their checking account which was already under duress.

The result of this tax increase is that we now pay 30.4 percent of the gross domestic product in taxes. This is the highest that it has ever been in American history. The tax burden has never been higher, and under the current economic plan as proposed by President Clinton it will rise to its highest level ever, 19.3 percent of the gross domestic product.

The point I am making here is that for Senator Dole to come forward and say we ought to lower this burden, it means that this family that has lost \$2,000-plus per year under the 15 percent across-the-board tax relief will get about \$1,200 to \$1,400 of that back. That makes a lot of sense. If a family cannot even keep half the wages they earn, I think it is sound policy to try to reverse that and get some of those resources back in that family's checking account so that they can see to the raising of the children, the education, the housing, the transportation, the food, all of that which we depend on the American family to do. We have made it almost impossible for the American family to do that which they are supposed to do.

In addition, that plan embraces a balanced budget amendment to the Constitution. I might point out that Senator EXON of Nebraska was one of the seven that changed his vote which caused the failure of passage of the balanced budget amendment to the Constitution.

Senator Dole has embraced that. We have talked about the IRS here, saying we are going to get into that agency and produce a cultural attitude that is consistent with being a partner to America and not a boss over America, saying that you are going to balance the budget by the year 2002 which will lower interest rates—it will lower what this American family has to pay on the mortgage for their home, car, refrigerator, their credit card.

All of these proposals make a lot of sense, and it is all right that we disagree and debate about the conditions of these, but we ought to do it in a very civil and appropriate way. There ought not to be any name calling on either side of the aisle. The American people expect that of this body.

In closing, Madam President, I cannot think of any policy that is more important for our working families than to try to get this burden down to a more rational level. If you ask all our families, it does not matter what walk of life they come from, what their income strata is, their education, they all say that the appropriate tax burden should be about 25 percent. It is double that. And so I think Senator Dole's suggestion that we ought to pass a little relief back to those family checking accounts makes every bit of sense.

for his leadership on this issue. I wish to address another aspect of our unfair tax system—the estate tax.

Today I am introducing a bill to repeal the Federal estate and gift taxes and the tax on generation-skipping transfers. This bill is very simple. It repeals, in its entirety, subtitle B of the Internal Revenue Code of 1986. This repeal is effective for estates of decedents dying and gifts and generation-skipping transfers made after the date of enactment.

Mr. President, the Federal estate and gift tax structure is perhaps the most unfair and inefficient revenue source used by our Government. First, these taxes represent multiple taxation on savings and investment. Income is initially taxed when it is earned. If any of that income is saved, the earnings on the savings are taxed. A third level of taxation occurs as capital gains taxes are paid. Finally, after a lifetime of savings and investment, estate and gift taxes are assessed. Estate and gift tax rates are much higher than income tax rates.

Second, these taxes inhibit economic growth and job creation. Family owned businesses, farms, and ranches are the source of most new jobs created in the United States. Yet it is these family owned businesses that are most affected by estate and gift taxes. In many cases, family businesses do not have sufficient liquid assets to pay estate taxes upon the death of the owner. Frequently the business is liquidated or they sell the farm. As a result, jobs are lost and economic activity ceases.

Estate and gift taxes further stifle economic growth because of the increased cost for capital accumulation. When lifetime savings are taxed at high rates, the incentive to save is reduced. Spending and consumption replaces savings and investment. As a result, wage rates and employment suffer.

Third, estate and gift taxes result in economic inefficiencies, as taxpayers attempt to avoid or minimize these taxes, or allocate resources for estate planning. A survey by the Center for the Study of Taxation found that 80 percent of owners of family businesses reported taking some steps to plan for estate taxes. Such mechanisms included life insurance, buy/sell agreements, restructuring family partnerships and trusts, and charitable bequests. According to a report on this survey, 62 percent of the family businesses stated they would not have spent the time or money on estate planning. They did so because they felt estate and gift taxes threatened the survival of their businesses.

Mr. President, with all the negative economic consequences resulting from estate and gift taxes, one must ask if these taxes are worth the cost. I, and many others, have concluded they are not.

There is a misconception that such taxes only affect the very wealthy and that these taxes generate large

amounts of revenue. The fact is, these taxes impact everyone, directly or indirectly. Furthermore, these taxes are a minor revenue source for the Federal Government, accounting for only 1 percent of total Federal receipts. The amounts actually collected must be offset by the billions spent each year for enforcement and compliance activities.

Mr. President, it is time to abolish Federal estate and gift taxes. These taxes are unfair and inefficient. They hinder economic growth, destroying family businesses and jobs. They result in resources being diverted to estate planning activities, away from economic growth. These consequences, as well as the actual costs of collecting these taxes, do not justify such taxes or the minimal revenues they produce. I urge my colleagues to support repeal of the Federal estate and gift taxes.

By Mr. THURMOND:

S. 2074. A bill to repeal the Federal estate and gift taxes and the tax on generation-skipping transfers; to the Committee on Finance.

ESTATE TAXES LEGISLATION

Mr. THURMOND. Mr. President, I rise today to join my colleagues in discussing reform of our tax system. I commend the Senator from Georgia,